



CITY OF HAYWARD

AGENDA REPORT

AGENDA DATE 10/26/99

AGENDA ITEM 6

WORK SESSION ITEM _____

TO: Mayor and City Council

FROM: Director of Community and Economic Development

SUBJECT: Adoption of Resolution of Intention to Reimburse Expenditures From the Proceeds of Mortgage Revenue Bonds Issued to Finance the Purchase and Rehabilitation of Heritage West Apartments, A Multifamily Development

RECOMMENDATION:

It is recommended that the City Council:

- Adopt the attached resolution conditionally authorizing the issuance of \$10.5 million in bonds to assist in the acquisition and rehabilitation of the Heritage West Apartments, a multifamily housing development located at 24660 Amador Street;
- Authorize the City Manager to execute agreements for bond counsel services with Jones Hall, A Professional Law Corporation, and for financial adviser services with CSG, Inc.;
- Authorize the City Manager to execute all other implementing documents in connection with the proposed issuance.

BACKGROUND:

Description of the Project

Fairfield Residential LLC (Fairfield), a San Diego investment real estate brokerage firm, is in contract to purchase Heritage West Apartments, a 142-unit development located at 24660 Amador Street. They have requested that the City issue multifamily mortgage revenue bonds to pay for the acquisition and rehabilitation of the complex. Additional financing will be from the syndication of low-income housing tax credits.

Heritage West was constructed in 1966 and is comprised of eight two-story residential buildings with 142 units. The unit mix at Heritage West includes 105 one-bedroom units and 37 two-bedroom units. Current amenities are a swimming pool and laundry facilities. This is an older development which has been poorly maintained.

The total cost for purchase and rehabilitation of the project is approximately \$13.45 million. This includes \$8.7 for acquisition and the remainder for rehabilitation and financing costs.

The proposed exterior rehabilitation includes roof system repairs, creation of a tot-lot, upgrade of

the perimeter fencing, expanded exterior lighting systems, exterior painting and addition of trim around all doors and windows, replacement of railings, creation of interior sidewalks and significant new landscaping. The complex's recreation center which is currently unusable will be rehabilitated to serve as a Club House/Services Center for tenant use. Interior improvements will include installation of new appliances, upgrading water heaters, replacing carpeting, repairing and upgrading wall heaters, refurbishing interior cabinetry, replacing sinks and showers and upgrading bathroom fixtures. In addition, the regulatory agreement and the loan agreement will specifically require the borrower to maintain the Project in substantially the same rehabilitated condition during the term of the fifteen year agreement.

In addition to upgrading the physical structure, Fairfield is proposing to significantly upgrade the property management and maintenance by having a two person property management staff and a full-time maintenance person onsite at this development. Currently, there appears to be one property manager and no onsite maintenance.

Federal tax law requires that at least fifteen percent (15%) of the bond proceeds for the acquisition and rehabilitation of existing rental projects be set aside for the costs of rehabilitation. In this instance, at least 34% of the bond proceeds will be used to rehabilitate the development.

Occupancy Restrictions

To date, all of the mortgage bond developments financed by the City of Hayward have been structured so that 20% of the units are restricted for occupancy by households with incomes at or below 50% of the area median (currently \$32,850 for a family of four) for at least fifteen years. Under this structure, all other units are made available to the public at market rents.

Fairfield, however, has elected to utilize a different option under the Tax Code. They have chosen to restrict occupancy of all 142 units to households whose incomes are at or below 60% of the area median (currently \$39,400 for a family of four). A review of the rent roll indicates that approximately 75% of the current tenants have household incomes within this limit. By choosing an option that allows for a higher income and restricts all units, not just 20%, tenant displacement will be minimized. Turnover at Heritage West is currently 50% per year. As vacancies occur, units will be taken out of service and either rehabilitated or used by current tenants whose apartments are being upgraded. Staff believes that these factors combined will minimize the displacement of over-income tenants. Fairfield and City staff will coordinate with ECHO and Eden Information and Referral to make special rental assistance services available for tenants whose incomes exceed 60% of area median.

Project Rents

In addition to the revenue from the sale of mortgage bonds, proceeds from the syndication of tax credits will help finance the project. As a result, the rents cannot exceed limits established by state Tax Credit regulations, and are lower than the rents allowed in the mortgage bond program. These rents are, however, higher than the current rents at Heritage West, particularly for one bedroom units. As shown in the following table, current rents are below market, probably due to the condition of the units and the property.

Type of Unit	Current Monthly Rent Heritage West	After-Rehab Monthly Rent -- Heritage West	Current Monthly Rent Palomar Terrace
One Bedroom	\$650-680	\$747	\$804
Two Bedroom	\$825-850	\$892	\$925-965

The one bedroom rents are based on a household of two whose income is at 60% of area median income paying 30% of their monthly gross income less utility allowance. Although the after-rehabilitation rents are higher than current rents, particularly for the one bedroom units, these rents will still be lower than market for the area.. Palomar Terrace, a property adjacent to Heritage West -- which was built at the same time, by the same builder, using the same floor plan and exterior as Heritage West-- has been fully rehabilitated and its rents are comparable to those of most apartment developments in Hayward.

For the next fifteen years, the percentage increase in rents allowed for this project will be equal to the percentage increase in HUD median incomes. Over the past five years, that increase has been approximately four percent per year. This is considerably lower than the annual increase in market rents throughout Hayward and the East Bay. According RealFacts, a California market research firm specializing in residential development, the increase in Hayward rents over the past 21 months has been 13.5% for one bedroom/one bath and two bedroom/one bath apartments and 16% for two bedroom/two bath apartments. In Alameda County comparable rents for these units during this period of time are 14% and 14.7% respectively.

One unit in Heritage West remains under Hayward's Rent Stabilization Ordinance. As was the case with the Timbers mortgage bond project, that unit in Heritage West will have a rent which is the *lesser* of the affordable rent under the bond requirements or the rent allowed under the Rent Stabilization Ordinance.

Staff is recommending that Council approve the resolution, conditionally authorizing the sale of bonds for this project, because the appearance of the development will be significantly improved, the apartments will be upgraded, the tenant amenities will be substantially upgraded, and the property management and maintenance and tenant safety will be greatly improved. Although initially the rents will be increased, the rate of increase will be low for fifteen years thereafter.

Process for Obtaining a Bond Allocation

The issuance of multifamily mortgage revenue bonds in the State of California is subject to an annual Statewide maximum or cap. Authority to issue bonds is granted by the California Debt

Limit Allocation Committee (CDLAC). An application must be submitted to CDLAC for each project. The allocation awarded each project is then deducted from the annual cap. The amount of the cap for 2000 will be established at the first CDLAC hearing scheduled for January 2000. Given that mortgage bonds must compete with all other forms of bonds, including industrial development bonds, the City's financial adviser recommends pursuing an allocation at the first meeting of the year.

To meet this hearing date, applications for an allocation are due to CDLAC by December 1999. A component of the application is a resolution from the issuing authority. A resolution is attached. City staff, with the assistance of bond counsel and the City's financial adviser is working with the developer to structure a bond issue that meets the needs of the development and provides appropriate guarantees to the City. The actual issuance of the bonds would, of course, be the subject of City Council review and approval in 2000. Mortgage revenue bonds issued by the City are secured solely by the revenue from the project and in no way pledge the full faith and credit of the City.

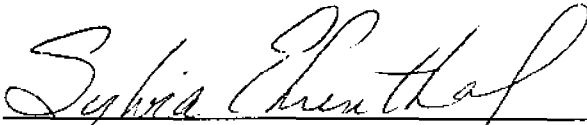
Staff has inspected this complex and has researched Fairfield Residential's capacity to complete the project. Based on Fairfield's work on similar projects in other jurisdictions, staff has determined that Fairfield has the ability to carry out the rehabilitation and manage and maintain the project so that it will be an asset to the City.

Prepared by:



Ann R. Bauman, Neighborhood and Economic
Development Manager

Recommended by:



Sylvia Ehrenthal, Director of Community
and Economic Development

Approved by:



Jesús Armas, City Manager

Attachment: Resolution

HAYWARD CITY COUNCIL

RESOLUTION NO. _____

Introduced by Council Member _____

**RESOLUTION DECLARING INTENTION TO REIMBURSE
EXPENDITURES FROM THE PROCEEDS OF TAX-EXEMPT
OBLIGATIONS AND DIRECTING CERTAIN ACTIONS**

WHEREAS, the City of Hayward (the "City") intends to issue tax-exempt obligations (the "Obligations") for the purpose, among other things, of making a loan to Fairfield Residential LLC, a California limited liability company established by Fairfield Residential, Inc., 5510 Morehouse Drive, Suite 200, San Diego, California (the "Developer"), the proceeds of which shall be used by the Developer to finance the acquisition, rehabilitation, and development of a multifamily housing facility located at 24660 Amador Street in the City of Hayward, California and commonly known as Heritage West Apartments (the "Project"); and

WHEREAS, THE City is authorized by Chapter 7 of Part 5 of Division 31 of the Health and Safety Code of the State of California (the "Law") to issue and sell revenue bonds for the purpose of financing the acquisition, rehabilitation and development of multifamily rental housing facilities to be occupied in part by low income tenants; and

WHEREAS, United States Income Tax Regulations section 1.103-18 provides generally that proceeds of tax-exempt debt are not deemed to be expended when such proceeds are used for reimbursement of expenditures made prior to the date of issuance of such debt unless certain procedures are followed, among which is a requirement that (with certain exceptions), prior to the payment of any such expenditure, the issuer must declare an intention to reimburse such expenditure (the "Tax Law Reimbursement Provisions"); and

WHEREAS, the Obligations will be considered to be "qualified exempt facility bonds" under Section 142(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and Section 147(f) of the Code requires that the "applicable elected representative" with respect to the City hold a public hearing on and approve the issuance of the Obligations; and

WHEREAS, this City Council is the elected legislative body of the City; and

WHEREAS, a notice of public hearing in a newspaper of general circulation in the City has been published, to the effect that a public hearing would be held by this City Council regarding the issuance of the Obligations by the City and the nature and location of the Project; and

WHEREAS, this City Council held said public hearing on such date, at which time an opportunity was provided to present arguments both for and against the issuance of such Bonds and the nature and location of the Project; and

WHEREAS, it is in the public interest and for the public benefit that the City declare its official intent to reimburse the expenditures referenced herein.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Hayward DECLARES and ORDERS as follows:

1. The City intends to issue the Obligations for the purpose of paying the costs of financing the acquisition, rehabilitation and development of the Project.
2. The City hereby declares that it reasonably expects that a portion of the proceeds of the Obligations will be used for reimbursement of expenditures for the acquisition, rehabilitation and development of the Project that are paid before the date of initial execution and delivery of the Obligations.
3. The maximum amount of proceeds of the Obligations to be used for reimbursement of expenditures for the acquisition, rehabilitation and development of the Project that are paid before the date of initial execution and delivery of the Obligations is \$9,500,000.
4. The foregoing declaration is consistent with the budgetary and financial circumstances of the City in that there are no funds (other than proceeds of the Obligations) that are reasonably expected to be (i) reserved, (ii) allocated or (iii) otherwise set aside, on a long-term basis, by or on behalf of the City, or any public entity controlled by the City, for the expenditures for the acquisition, rehabilitation and development of the Project that are expected to be reimbursed from the proceeds of the Obligations.
5. The Developer shall be responsible for the payment of all present and future costs in connection with the issuance of the Obligations, including, but not limited to, any fees and expenses incurred by the City in anticipation of the issuance of the Obligations, the City's financing fee with respect to the issuance of the Obligations, the City's annual administration fee with respect to administering the provisions of a regulatory agreement with respect to the Project, the cost of printing any official statement, rating agency costs, bond counsel fees and expenses, underwriting discount and costs, trustee fees and expense, and the costs of printing the Obligations. The payment of the principal, redemption premium, if any, and purchase price of and interest on the Obligations shall be solely the responsibility of the Developer. The Obligations shall not constitute a debt or obligation of the City.
6. This City Council hereby further determines that it is appropriate for the City to issue the Obligations to finance the acquisition, rehabilitation and development of the Project.

7. The law firm of Jones Hall, A Professional Law Corporation, is hereby named as bond counsel to the City in connection with the issuance of the Obligations. The financial advisory firm of CSG, Inc. is hereby named as financial advisor to the City in connection with the issuance of the Obligations. The fees and expense of the bond counsel and the financial advisor are to be paid solely from the proceeds of the Obligations or directly by the Developer.

8. The appropriate officers or staff of the City are hereby authorized, for and in the name of and on behalf of the City, to make an application to the California Debt Limit Allocation Committee for an allocation of private activity bonds for the financing of the Project and to execute contracts with bond counsel and the financial advisor in substantially the forms on file with the City Clerk with such changes or deletions as shall be deemed necessary by such officials or staff.

The adoption of this Resolution is solely for the purpose of meeting the requirements of the Tax Law Reimbursement Provisions and the Code and shall not be construed in any other manner, the City nor its staff having fully reviewed or considered the financial feasibility of the Project or the expected operation of the Project with regards to any State of California statutory requirements, and such adoption shall not obligate without further formal action to be taken by this City Council including, but not limited to, the approval of the financing documents by the City Council, by resolution, (i) the City to provide financing to the Developer for the acquisition, rehabilitation and development of the Project or to issue the Obligations for purposes of such financing; or (ii) the City, or any department of the City, to approve any application or request for, or take any other action in connection with, any environmental, General Plan, zoning or any other permit or other action necessary for the acquisition, rehabilitation, development or operation of the Project.

IN COUNCIL, HAYWARD, CALIFORNIA _____, 1999

ADOPTED BY THE FOLLOWING VOTE:

AYES:

NOES:

ABSTAIN:

ABSENT:

ATTEST: _____
City Clerk of the City of Hayward

APPROVED AS TO FORM:

City Attorney of the City of Hayward